



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1998

MEMORANDUM FOR: Larry Irving
Assistant Secretary for Communications
and Information

FROM: 
Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of NTIA's FY 1997 Financial Statements
Audit Report No. FSC-9866-8-0001

The attached report presents the results of the audit of the National Telecommunications and Information Administration's (NTIA) Combined Statements of Financial Position as of September 30, 1997, and 1996, and the related Combined Statements of Operations and Changes in Net Position for the years then ended. Also provided are reports on NTIA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NTIA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of KPMG Peat Marwick LLP (KPMG) was contracted to audit NTIA's FY 1997 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of KPMG, the financial statements present fairly, in all material respects, the financial position of NTIA as of September 30, 1997, and 1996, and the results of its operations and changes in net position for the years then ended, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Financial statements audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The KPMG report on internal controls identified no material weaknesses or reportable conditions. The results of the audit clearly indicate that NTIA has made significant improvements in its financial and accounting practices over the past years.

Our office reviewed a draft version of NTIA's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 9, 1998, discussion paper and a subsequent meeting with NTIA management. NTIA was responsive to our comments, making some changes to the FY 1997 overview, while stating efforts will be made to strengthen FY 1998 and subsequent overviews.

The overview and supplemental financial and management information: (1) details how NTIA supports the three themes contained in the Department's *Strategic Plan*, including identifying planned performance measures; (2) lists many FY 1997 accomplishments by activity; and (3) includes some discussion on financial position and results. However, NTIA should improve its discussion of results by strengthening reported performance measurement data (e.g., increased outcome and cost-effectiveness measures) and improving the presentation of information to facilitate trend analyses and assessment of whether target levels of performance have been achieved.

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage NTIA to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to "provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition." The OIG realizes that improving the overview is an iterative process and encourages TA to strengthen next year's discussion of the bureau's results.

We recognize NTIA's commitment to preparing high quality and meaningful financial statements. To continue meeting this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration during preparation of the FY 1998 financial statements. Implementation of OMB Bulletin 97-01 poses tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Cost, requires NTIA to report its costs by sub-organizations and programs, which should be based on the mission and outputs described in NTIA's strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial or budgetary purposes, NTIA will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Contract Audits Division, at (703) 603-0301. We appreciate the cooperation and courtesies extended by NTIA during the audit.

cc: W. Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

Gay Shrum
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Comptroller, NIST

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